

Statement

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FAN Announces Funds Embezzled by Former Employee Will Be Restored and Releases Report on Internal Investigation and Recommendations

Clarke J. Howatt, a former employee of the Association of Bay Area Governments (ABAG) and former Secretary to the ABAG Finance Authority for Nonprofit Corporations (FAN) is pleading guilty to one count of wire fraud in violation of federal law (18 USC Section 1343) in connection with embezzling \$3.9 million. FAN and ABAG announced they have obtained restitution funds from Howatt to enable all the impacted accounts to be refunded, and are in the process of doing so.

In late January 2015, ABAG learned Howatt had stolen \$1.3 million from a bank account holding the proceeds of bonds issued by FAN to fund public improvements for the Rincon Hill development in San Francisco. FAN and ABAG immediately committed to restoring any funds taken and began an internal investigation to determine whether there were other embezzlements. FAN and ABAG also immediately contacted the U. S. Attorney's office and the Federal Bureau of Investigation (FBI) to share resources and information. On July 9, FAN and ABAG restored the entire \$1.3 million to the Rincon Hill account from which it had been stolen.

Howatt cooperated fully in both the FAN and ABAG investigation and the criminal proceedings conducted by the U.S. Attorney's office and FBI. In addition to the \$1.3 million Rincon Hill theft, Howatt immediately admitted to approximately \$2.6 million in three embezzlements from bank accounts established in connection with a series of bonds to fund public improvements for the Windemere Ranch development in Contra Costa County.

In March, FAN and ABAG retained the law firm of Orrick, Herrington, & Sutcliffe (Orrick) to lead its investigative effort. Orrick retained FTI Consulting, Inc. (FTI) to assist in the investigation and forensic review. FAN and ABAG are releasing a report prepared by Orrick and FTI on the results of the investigation (Report). The Report noted "no evidence of [embezzlements] other than those Howatt described" and that there was "no evidence that he acted in concert with others." The three embezzlements from the Windemere Ranch accounts took place between June 2011 and January 2015. In each of these instances, as well as the Rincon Hill embezzlement, Howatt withdrew money from accounts associated with the municipal financing project purportedly to pay for the costs of the improvements but deposited the funds into personal accounts that he had created and controlled. The dates and amounts of the embezzlements were: \$1,098,712 on June 23, 2011; \$1,225,000 on June 24, 2014, and \$256,082 on January 26, 2015.

Orrick and FTI have also recommended "remedial measures that will improve the control environment and reduce the risk of theft in the future." ABAG and FAN have accepted the

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recommendations and will begin implementing these measures in addition to earlier measures which were taken in the immediate aftermath of the initial discovery in January.

Executive Director Ezra Rapport said, “The accounts embezzled by a former employee will be restored in full. ABAG wishes to thank the U. S. Attorney’s office and the Federal Bureau of Investigation for their prompt and thorough attention to this matter. We are committed to protecting and preserving public funds and we will be working to put measures into place that will enhance our ability to detect and avert any future malfeasance.”

ABAG created FAN as a separate joint powers authority 25 years ago and staffed it, to assist nonprofit corporations and other entities to obtain financing for projects serving the public interest.

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